MULTIMEDIA UNIVERSITY

STUDENT ID NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 2, 2019/2020

BIB2074 – INTERNATIONAL BUSINESS

(All Sections/Groups)

14 MARCH 2020
2.30 p.m. - 4.30 p.m.
(2 Hours)

INSTRUCTION TO STUDENTS

1. This question paper consists of **FIVE (5)** pages with **THREE (3)** questions.
2. Attempt **ALL** questions. The distribution of the marks for each question is given.
3. Please write all your answers for in the Answer Booklet provided.

QUESTION 1

Why Britain's General Election won't End the Political Chaos

The UK politics has been polarised by two distinct political parties with differing ideologies and economic views. The government, led by the Conservative Party is a right-wing party that strives to retain the status quo in British politics, is moving towards right-wing populism. On the other hand, the opposition, led by the Labour Party, have always been left-wing and their manifesto have one of the most radical ideologies and economic reforms that is anti free-market. According to Adrian Woolridge, the political editor for the Economist, If Labour were to defy expectations and take over the government, their policies alone would have profound consequences on UK's stability as they are very radical. "The UK country is a very open economy, very dependent on foreign flows of capital and a lot of that capital will take flight and a lot of the policies that they want to put through will traumatise big and small corporations small corporations so we will have an extremely dramatic period of unsettling foreign exchanges". For instance, Labour is against the Conservatives intention to bring in more FDI into the nation's insufficient healthcare services, claiming it to be selling it away, particularly to the US, who Boris Johnson have recently befriended.

Ideologies are not the only differences that created a rift between the two parties. Since the public voted for UK to leave the European Union in 2016, the Conservatives have been trying to placate the public by negotiating a deal for an orderly Brexit. Under Johnson, a deal was successfully negotiated. Labour on the contrary have been indecisive, and have voted down many Brexit deals in parliament resulting in deadlocks. This was a major reason why the Brexit could not be delivered even after three years since the 2016 referendum.

Thus on December 12th 2019, British citizens were headed to the polls for the fourth time in five years. The UK general elections of 2019 was meant to repopulate parliament with one party with a significant majority to break the deadlock. The results have seen a dramatic shift in British politics whereby the Conservative Party won a whopping majority and took many of Labour's traditional seats. This was presumably because the leader of the Conservatives, Boris Johnson's slogan "Get Brexit Done" resonated with the people. Nonetheless, this election is unlikely to heal Britain's divided politics. This election may enable Boris Johnson's Brexit deal to go ahead, but it also marks the start of UK's constitutional turmoil. While England and Wales voted to leave, Scotland and Northern Ireland had voted to remain.

For Scotland, the elections results showed that Scottish voters are increasingly preferring the Scottish National Party, who has always pushed for Scottish independence from the UK. For the Scots, who have voted to remain in EU, the government's decision to proceed with Brexit is a total disregard for the view of the people of Scotland. "This boosted support for Scottish independence as Remainers think that the only way they can remain in the European Union is to vote for a separate Scotland", Woolridge said.

Continued ...

For Northern Ireland, the deal negotiated by Boris Johnson with the European Union creates a border down the Irish Sea. This separates Northern Ireland from the rest of the UK. This actually draws them closer to the Irish Republic and encourages the unification of Northern Ireland and the Republic of Ireland in the European Union economic sphere.

Finally, there is another reason why the chaos in UK is likely to continue. The UK economy is slowing down, and that workers' wages have not risen for about a decade. Both parties have come out with solutions but neither one of their solutions is likely to work. The Labour Party's solution is too ambitious and is too anti-market, while the Conservative approach of Brexit will mean a big hit for the economy. As Woolridge puts it, "both parties are asking very fundamental questions, and both parties are giving the wrong answers to them".

Source: Case excerpted from an interview with Adrian Woolridge, the political editor for the Economist (https://www.youtube.com/watch?v=mc8AWFoyBYo&t=150s) and rewritten by the examiner in light of the results of the election on 13 December 2019.

a) Explain the difference between *conservatism* and *radicalism.* Support your answers with examples in the context of UK politics. (10 marks)

b) Explain the difference between two ideology approaches to FDI namely *free-market view* and *radical view.* Support your answers with examples in the context of UK politics. (10 marks)

c) Adrian Woolridge also mentioned that the businesses moving out of the UK will unsettle the country's foreign exchanges. Explain how the outflow of FDI will devalue UK's currency. (5 marks)

d) While globalist regard Brexit to be a bad decision, there are also arguments that Brexit may open up many other trade opportunities for the UK. Based on your general knowledge, discuss why Brexit may also be good for the UK economy in the long run? (5 marks)

e) Despite Brexit, there are businesses who choose to maintain their business operations in the UK. Explain **THREE (3)** possible reasons (15 marks)

(Total: 45 marks)

Continued ...

QUESTION 2

Tesco Weighs Up Sale of Thai and Malaysian Stores

Tesco is considering a sale of its Thai and Malaysian stores to an unnamed buyer that could result in Britain's largest supermarket chain exiting two of its last remaining international businesses. Tesco currently operates 1,967 stores in Thailand under the Tesco Lotus brand, and another 74 in Malaysia, employing more than 60,000 people. The businesses made combined revenues of £4.9bn in the year ending in February, making a profit of £286m – about a fifth of Tesco's total global profits.

Clive Black, an analyst at Shore Capital, said the Asian operations were a "trophy asset" given Tesco's leading market position in Thailand and the growth potential offered by a country experiencing increasing urbanisation."It could go for a very high price, and it's also the case that Tesco doesn't need to sell," he said. Tesco's chief executive, Dave Lewis, in June highlighted growth opportunities in the Asian business, including plans to open another 750 convenience stores in Thailand. The Asian business is growing faster than Tesco's core business and is more profitable, with margins of about 6% compared with less than 3% in the UK and Ireland and the central European arm that operates in Poland, the Czech Republic, Slovakia and Hungary.

The sale of the Asian business would leave Ireland and central Europe as Tesco's only remaining non-UK operations, representing the almost complete retreat from the international supermarket empire formed by Terry Leahy. Tesco has left Japan, the US and Turkey in recent years. The last significant retreat came in 2015, when Lewis sold off the supermarket's South Korean business. It is believed that the cash boost from selling its Asian business could help the company to improve profitability in the UK, where intense competition and the rise of online shopping have prompted them to restructure their workforce to lower operational costs.

Source: Case summarised from The Guardian (2019, December 8). "Tesco weighs up sale of Thai and Malaysian stores", https://www.theguardian.com/business/2019/dec/08/tesco-weighs-up-sale-of-thai-and-malaysian-stores

a) Evaluate **THREE (3)** advantages of acquisition that the buyer would get from acquiring Tesco's Asian operations. (15 marks)

b) Statements by Clive Black and Dave Lewis suggests that Tesco's Asian operations are extremely good and profitable. Therefore, using the *hubris hypothesis*, explain why acquiring Tesco may be a bad decision for the buyer. (5 marks)

c) Explain how the cash from the sale of Tesco's Asian operations can be used to help the company fight competition in the United Kingdom. (5 marks)

(Total: 25 marks)

Continued ...

QUESTION 3

Malaysia Turning to Food Crops as Palm Oil Price Falls

Oil palm was introduced to Malaysia in the 1870s by the British. Since then, it became a profitable commercial crop which enabled Malaysia to be among the world's most efficient producers. To date, oil palm plantations still constitute the majority of Malaysia's agricultural lands, followed by rubber. Nonetheless, crude palm oil prices have more than halved in the last eight years, falling from US$1,290 per tonne in 2011 to about US $521 in 2019.

Making matters worse, controversies in recent years surrounding the claims that palm oil cultivation have encouraged deforestation have resulted in a future ban on palm oil products by the European Union. This has further driven palm oil prices down and caused much worries to palm oil exporting nations like Thailand, Malaysia and Indonesia. The European Union actually subsidises its farmers for the production of its own vegetable oils. It is believed that the action to ban palm oil can boost the prices and consumption of its own vegetable oils, saving millions in subsidy payments to farmers under the bloc's strict but unfair agricultural protection framework.

In light of the uncertainties surrounding the future of the palm oil industry, the Malaysian government has tried to pacify farmers and local producers by encouraging them to diversify their crops and shift the focus from commercial crops to other crops such as fragrant rice which can fetch higher prices. However, this is easier said than done.

Sources: 1) The Straits Times (2019, September 9, "Malaysia turning to food crops as palm oil price falls", https://www.straitstimes.com/asia/se-asia/malaysia-turning-to-food-crops-as-palm-oil-price-falls

2) The Malaysian Reserve (2019, July 21), "Palm oil ban: EU saving its skin and the bloating subsidy", https://themalaysianreserve.com/2019/07/22/palm-oil-ban-eu-saving-its-skin-and-the-bloating-subsidy/

a) What are *subsidies* and why is giving subsidies often considered to be an unfair practice? (5 marks)

b) Borrowing from the assumptions for free trade, the Malaysian government may have recommended a transition from oil palm cultivation to rice cultivation, but this may not be as easy as it seem because in reality, *resources are immobile*. Explain. (5 marks)

Continued ...

c) Assume both Thailand and Malaysia have 800 units of resources each, and the resources are equally distributed for the production of rice and sugar cane. Thailand uses 20 units to produce 1 mil. tonnes of rice and 32 units to produce 1 mil. tonnes of sugar cane. On the other hand, Malaysia uses 50 units to produce 1 mil. tonnes of rice and 40 units to produce 1 mil. tonnes of sugar cane. Later, in order to capitalise on comparative advantages, both countries decided to specialise. Thailand increased its resource allocation for rice production to 560 while Malaysia specialised completely in the production of sugar cane. Both countries then traded on the basis of 8 mil. tonnes of rice for 8 mil. tonnes of sugar cane.

Note: The following sub-sections (i), (ii), and (iii) should be presented in a table.

i) Before specialisation, what is the total rice and total sugar cane produced? (6 marks)

ii) After specialisation based on comparative advantages, what is the total rice and total sugar cane produced? (6 marks)

iii) After trade, what are the extra amount of rice and sugar cane enjoyed by both countries? (8 marks)

(Total: 30 marks)

End of Paper.